

Message Text

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ACTION EB-07

INFO OCT-01 EA-07 ISO-00 GSA-01 INT-05 SP-02 AID-05 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03

LAB-04 SIL-01 H-02 L-03 /086 W
----- 128123

P 200801Z AUG 75

FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC PRIORITY 6422

INFO AMCONSUL PERTH

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E.O. 11652: N/A

TAGS: EMIN, AS

SUBJECT: ALUMINA

REF: STATE 196892

1. EMBOFF DISCUSSED ALUMINA EXPORT LICENSING POLICY
20 AUGUST WITH DEPARTMENT MINERALS AND ENERGY. WHILE
WE EXPLORED SPECIFIC QUESTIONS REFTEL IN COURSE OF
WIDE-RANGING DISCUSSION, WE RAISED OUR QUESTIONS IN
BROAD CONTEXT AND DID NOT INDICATE SPECIFIC REASON FOR
WASHINGTON INQUIRY OTHER THAN GENERAL DESIRE FOR UPDATE
ON ALUMINA LICENSING SITUATION. GOA HAS CLOSE
DAILY DIALOGUE WITH MAJOR ALUMINA EXPORTERS, AND IN VIEW
NATURE REFTEL WE FELT IT WISE IN ABSENCE FURTHER INSTRUCTION
ON POINT NOT TO ALLUDE TO FACT U.S. IMPORTER HAD APPROACHED
DEPARTMENT. IF IN LIGHT FOLLOWING INFORMATION DEPARTMENT
DEEMS IT DESIRABLE THAT EMBASSY QUERY MINERALS AND ENERGY
SPECIFICALLY ON UNITED TECHNOLOGIES' TRANSACTIONS
WITH ALCOA AUSTRALIA REQUEST YOU ADVISE US.

2. LIKE OTHER MINERALS EXPORT CONTROLS, CONTROLS ON ALUMINA
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DESIGNED PRIMARILY TO ENSURE "WORLD PRICE" FOR

AUSTRALIAN SALES. LICENSES ISSUED FOR INDIVIDUAL SHIPMENTS, ON BASIS GENERAL PRIOR APPROVAL OF TERMS OF CONTRACTS. WE UNDERSTAND MINERALS AND ENERGY WILL COMMIT ITSELF TO ISSUE LICENSES UNDER APPROVED CONTRACTS FOR UP TO BUT IN NO CASES MORE THAN ONE YEAR. BEYOND ONE YEAR IT IS FREE TO RECONSIDER SUCH APPROVAL IN PRINCIPLE, BUT ITS GENERAL POLICY IS NOT TO PREVENT, THROUGH EXPORT LICENSING, THE IMPLEMENTATION OF LONGER TERM CONTRACTS, PROVIDED BOTH BUYER AND SELLER ARE OTHERWISE FULLY COMPLYING WITH ALL PROVISIONS OF THE CONTRACT. GOA DOES HOWEVER ENCOURAGE INCORPORATION OF APPROPRIATE ESCALATION CLAUSES IN SUCH CONTRACTS AND WE SENSED BY IMPLICATION (ALTHOUGH THIS NOT EXPLICIT) THAT THERE COULD BE CASES IN WHICH GOA WOULD WELCOME OR EVEN ENCOURAGE SELLERS TO SEEK REVISION OF CONTRACTS WHICH GOA FELT WERE OUTDATED BY WORLD PRICE DEVELOPMENTS. OUR CONTACTS HOWEVER WOULD NOT GO SO FAR AS TO SAY THAT IN LAST ANALYSIS, FAILING MUTUAL RENEGOTIATION OF SUCH CONTRACT, GOA WOULD PREVENT CONTINUED IMPLEMENTATION OF OLD CONTRACT THROUGH EXPORT LICENSING POWER.

3. IN COURSE OF CONVERSATION DEPARTMENT INDICATED IT VIEWED ALUMINA MARKET AS CURRENTLY MILDLY DEPRESSED, AND THAT THE LIMITED NUMBER OF SPOT TRANSACTIONS NOW OBSERVED TENDED TO BE AT PRICES LOWER THAN THOSE TYPICAL OF LONGER TERM CONTRACTS. WHILE DEPARTMENT WOULD NOT REVEAL WHAT IT NOW CONSIDERED APPROPRIATE CONTRACT PRICES, GENERAL REFERENCES WERE MADE TO THE RANGE OF \$US110-\$US120 PER TON AS COMMONPLACE. OUR INFORMANTS ALSO NOTED IN PASSING THAT CARIBBEAN ALUMINA PRICES WERE TENDING WELL OVER THIS LEVEL DUE TO NEW JAMAICA ALUMINA LEVIES.

4. (3) TO RECAPITULATE OUR COMMENTS ON SPECIFIC QUESTIONS PARAS 4 AND 5 REFTEL ARE: (1) GOA HAS COMPLETE LICENSING CONTROL OVER ALUMINA EXPORTS, (2) GOA POLICY IN REVIEWING CONTRACTS AT THE OUTSET IS TO SEEK A "WORLD PRICE" TAKING INTO ACCOUNT ALL ASPECTS OF CURRENT TRADE MOVEMENTS FROM OTHER SUPPLIER COUNTRIES, (3) ONCE A CONTRACT IS APPROVED GOA NORMALLY LICENSES WITHOUT QUESTION AGAINST THE CONTRACT FOR UP TO A MAXIMUM OF ONE YEAR AND IN THE CASE OF LONGER LIMITED OFFICIAL USE

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TERM CONTRACTS ITS GENERAL POLICY IS NOT TO PREVENT THE EXPORTER HONORING SUCH CONTRACTS FOR THEIR DURATION, (4) THE GOA AUTHORITIES ARE IN CLOSE TOUCH WITH EXPORTERS AND EXPORTERS WOULD BE WELL AWARE OF ANY CONTRACTS PREVIOUSLY APPROVED WHICH THE GOVERNMENT REGARDED AS OUTDATED BY MARKET DEVELOPMENTS, (5) IN SUCH CASES WE SURMISE THE EXPORTER COULD COUNT ON THE GOA WELCOMING ANY PROGRESS THE EXPORTER COULD MAKE IN RENEGOTIATING THE CONTRACT,

BUT (6) BARRING UNUSUAL CIRCUMSTANCES THE GOA IS UNLIKELY TO FORCE AN UNWILLING EXPORTER TO RENEGOTIATE THROUGH ITS POWER OVER CURRENT LICENSES DURING THE BALANCE OF THE CONTRACTS VALID PERIOD. (7) ON BASIS OF FACTS IN PARA 3 REFTEL, OUR TENTATIVE JUDGEMENT (SUBJECT TO IDENTIFYING THE ALCOA-UNITED TECHNOLOGIES TRANSACTIONS TO GOA AND PRESSING FOR SPECIFIC COMMENT) IS THAT GOR MIGHT WELL BE UNHAPPY ABOUT 1975 CONTRACT AT \$US85 PER TON, MIGHT WELCOME ANY EFFORT BY ALCOA TO RENEGOTIATE IT BUT PROBABLY WOULD NOT INTERFERE WITH IT THROUGH LICENSING ACTION DURING THE BALANCE OF ITS 1975 VALIDITY. (8) ON ASSUMPTION HOWEVER, FROM LANGUAGE PARA 2 REFTEL THAT CURRENT AGREEMENT APPLIES ONLY TO 1975, AND THAT A NEW AGREEMENT IS REQUIRED FOR 1976 PRICES, IT SEEMS QUITE CONCEIVABLE IN LIGHT OUR GENERALIZED DISCUSSION WITH GOA THAT GENERAL RANGE OF \$US110 PER TON OR EVEN MORE MIGHT BE EXPECTED IN 1976 AND THAT ALCOA MIGHT HAVE RECEIVED OFFICIAL INTIMATION OF THIS EXPECTATION.

5. IN THIS CONNECTION WE DO NOT FULLY UNDERSTAND CONNECTION BETWEEN REFERENCES PARA 2 REFTEL TO AGREEMENT APPLYING ONLY TO 1975 AND SUBSEQUENT REFERENCES IN PARA 4 REFTEL TO "EXTRA-CONTRACTUAL" PRICE INCREASES. IN EVENT THAT UNITED TECHNOLOGIES HAS A FIRM VALID CONTRACT IN FORCE WITH ALCOA COVERING YEAR 1976 THEN OUR FOREGOING COMMENT "(8)" WOULD NOT APPLY.

6. WE AGAIN EMPHASIZE ALL ABOVE INFORMATION ON GOA POLICIES AND ATTITUDES TOWARD CONTRACT ELICITED THROUGH GENERALIZED QUESTIONS. THIS OBVIOUSLY LEAVES OPEN POSSIBILITY THAT PARTICULAR ALCOA-UNITED TECHNOLOGIES TRANSACTION HAS SPECIAL ASPECTS AND QUESTIONS FRAMED IN TERMS THIS SPECIFIC CASE MIGHT HAVE ELICITED LIMITED OFFICIAL USE

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DIFFERENT CONCLUSIONS. IF DEPARTMENT DEEMS IT APPROPRIATE AND DESIRABLE THAT WE IDENTIFY THIS CASE TO GOA AND REQUEST SPECIFIC COMMENT, WE WILL RE-OPEN MATTER WITH GOA. WE HAVE, OF COURSE, NO ASSURANCE THAT GOA WOULD BE WILLING TO DISCUSS INDIVIDUAL CONTRACT OR TRANSACTIONS AND SHOULD NOTE THAT WHEN TODAY'S DISCUSSION STEERED CLOSE TO ANY SPECIFIC ILLUSTRATIVE CASES OUR CONTACTS POLITELY DECLINED TO COMMENT. PERCIVAL

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, EXPORT CONTROLS, LICENSES
Control Number: n/a
Copy: SINGLE
Draft Date: 20 AUG 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ellisoob
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975CANBER05603
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750287-0768
From: CANBERRA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750832/aaaabcbo.tel
Line Count: 162
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 STATE 196892
Review Action: RELEASED, APPROVED
Review Authority: ellisoob
Review Comment: n/a
Review Content Flags:
Review Date: 03 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <03 JUL 2003 by CunninFX>; APPROVED <13 NOV 2003 by ellisoob>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ALUMINA
TAGS: EMIN, AS, US, ALUMINA
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006